MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 1, 2022/ 2023 (TERM ID 2210)

DFN5114 – FUNDAMENTALS OF FINANCE 1

(All Sections / Groups)

10 February 2023
9.00 am – 11.00 am
(2 Hours)

INSTRUCTIONS TO STUDENT

1. This Question paper consists of 4 pages (including the cover page) with **4 QUESTIONS** only.

2. Answer **ALL** questions and the distribution of the marks for each question is given.

Please Answer all the Questions

Question 1

a) Illustrate what is the relationships between the concepts of net present value and shareholder wealth maximization? (5 marks)

b) Illustrate how to set up a loan amortization schedule. (10 marks)

c) Mr. Ali bought a building for RM60,000, payable on the following terms: a RM10,000 down payment and 25 equal annual instalment payments to include principal and interest of 10 percent per annum. Compute the amount of the instalment payments; how much of the first year's payment goes toward reducing the principal amount? (10 marks)

(Total: 25 marks)

Question 2

a) Upon retirement, your goal is to spend five years traveling around the world. To travel in the style to which you are accustomed will require RM250,000 per year at the beginning of each year. If you plan to retire in 30 years, what are the equal, annual, end of year payments necessary to achieve this goal? The funds in the retirement account will compound at 10 percent annually. (10 marks)

b) Two investment opportunities are open to you: Investment 1 and Investment 2. Each has an initial cost of RM10,000. Assuming that you desire a 10 percent return on your initial investment, compute the net present value of the two alternatives and evaluate their relative attractiveness:

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Investment 1			Investment 2	
Year 1	Cash Flow (RM)		Year 1	Cash Flow (RM)
1	5,000		1	8,000
2	6,000		2	7,000
3	7,000		3	6,000
4	8,000		4	5,000

(10 marks)

c) According to the general dividend valuation model, a firm that reinvests all its earnings and pays no cash dividends can still have a common stock value greater than zero. Explain how is this possible? (5 marks)

(Total: 25 marks)

Question 3

a) Describe factor or factors make the valuation of common stocks more complicated than the valuation of bonds and preferred stocks? (5 marks)

b) Illustrate the reasons why a firm may repurchase its own common stock. (10 marks)

c) The common stock of General Land Development Company (GLDC) is expected to pay a dividend of RM1.25 next year and currently sells for RM25. Assume that the firm's future dividend payments are expected to grow at a constant rate for the foreseeable future. Compute the implied growth rate of GLDC's dividends (and earnings), assuming that the required rate of return of investors is 12 percent. (5 marks)

d) Compute the current per share value of JRM Corporation to an investor who requires a 16 percent annual rate of return, if JRM's current per share dividend is RM2 and is expected to remain at RM2 for the foreseeable future. (5 marks)

(Total: 25 marks)

Continued...

Question 4

a) Illustrate the basic features of each of the following types of bonds:

i) Floating rate bonds

ii) Original issue deep discount bonds

iii) Zero coupon bonds

iv) Extendable notes (put bonds)

(10 marks)

b) Zheng Enterprises, a multinational drug company specializing in Chinese Medicines, issued RM100 millions of 15 percent coupon rate bonds in January 2005. The bonds had an initial maturity of 30 years. The bonds were sold at par and where callable in five years at 110 (i.e., 110 percent of par value). It is now January 2010, and interest rates have declined such that bonds of equivalent remaining maturity now sell to yield 11 percent. Compute how much would you be willing to pay for one of these bonds today? Why? (10 marks)

c) Illustrate what is meant by interest rate risk? (5 marks)

(Total: 25 marks)

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